Nos. 14-1513, 14-1520

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Supreme Court of the United States

HALO ELECTRONICS, INC.,

Petitioner,

v.

PULSE ELECTRONICS, INC., PULSE ELECTRONICS CORPORATION,

Respondents.

On Writs of Certiorari to the United States Court of Appeals for the Federal Circuit

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BRIEF OF NOKIA TECHNOLOGIES OY AND NOKIA USA INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONERS

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INTEREST OF THE *AMICI CURIAE*[1]

Amici curiae are Nokia Technologies Oy and Nokia USA Inc. (collectively, "Nokia"). Nokia is a global leader and innovator in the telecommunications equipment and services industry. The Nokia group of companies have cumulatively invested over $70 billion in research and development relating to mobile communications. As a result of this substantial commitment, Nokia currently owns more than 10,000 patent families, including a large number of standard-essential patents. Nokia continues to invest heavily in research and development and to license and expand its industry-leading patent portfolio. For example, Nokia continues to develop and license innovations that are powering the next revolution in computing and mobility: the "programmable world" where intelligent connections bring millions of everyday objects online. This work includes a team of experts in areas including digital healthcare, digital multimedia, imaging and sensing, wireless

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[1] Pursuant to Supreme Court Rule 37.6, counsel for *amici curiae* state that no counsel for a party authored this brief in whole or in part, or made a monetary contribution intended to fund the preparation or submission of this brief, and no other person other than *amici curiae*, its members, or its counsel made such a contribution. Pursuant to Supreme Court Rule 37.3, counsel for *amici curiae* represent that all parties have consented to the filing of this brief. Halo Electronics, Inc., Pulse Electronics, Inc., and Stryker Corp. filed notices of their consent to the filing of all *amicus curiae* briefs in support of either party or of neither party, and Zimmer, Inc. gave written consent to counsel for *amici curiae* to file this *amici curiae* brief.

connectivity and power management, advanced materials, and others.

Nokia and its parent company have been involved in numerous patent cases in U.S. district courts, both as a plaintiff and a defendant, including cases where enhanced damages under 35 U.S.C. § 284 were sought by or against Nokia. Nokia is a significant patent owner that might seek such enhanced damages for certain kinds of patent infringement in U.S. district courts.

Nokia's interest in this case is to advocate for the appropriate statement and application of legal standards governing enhanced damages under 35 U.S.C. § 284, and to ensure that those standards balance the interests of patent holders and those of users of patented technology. Companies like Nokia must be assured that their past, present, and future substantial research and development efforts are protectable under the U.S. patent regime and that, upon an appropriate request and showing, they are able to receive proper remediation and adequate compensation, including recovery of enhanced damages in appropriate circumstances, for unauthorized uses of their patented technologies. Although Nokia does not take any ultimate position on the facts of this specific case, Nokia supports Petitioner's position that this Court should reject the Federal Circuit's overly rigid test governing an award of enhanced damages under 35 U.S.C. § 284 and provide guidance that ensures a flexible approach to awarding enhanced damages in appropriate cases.

SUMMARY OF ARGUMENT

The Federal Circuit has abrogated the plain meaning of 35 U.S.C. § 284 in four ways. Section 284 of the Patent Act grants to trial courts the discretion to award enhanced damages in patent cases. 35 U.S.C. § 284. Despite the plain discretionary language of the statute, the Federal Circuit has (i) injected a willfulness requirement into language silent about willfulness, (ii) imposed an overly rigid two-part test for satisfying that willfulness requirement, (iii) required plaintiffs to meet an unreasonably high clear and convincing burden of proof under its manufactured test, and (iv) established *de novo* review of the district court's decision regarding whether that burden was satisfied. Each of these requirements conflicts with the plain language of the statute and recent guidance from the Supreme Court. They also make it unreasonably difficult for patent owners to obtain enhanced damages in appropriate cases, thus encouraging continued infringement and discouraging further investment in innovation.

An award of enhanced damages under § 284 should not require a finding of willfulness, even though such a finding could certainly be sufficient to support such an award. There is nothing in the language of the statute that supports a willfulness requirement, and the legislative history of the statute supports the conclusion that no such requirement was necessary for an enhancement award in a given case. Additionally, the Federal Circuit's grafting of a willfulness requirement onto §

284 ignores the compensatory aspect of enhanced damages. Courts should have discretion to award enhanced damages when appropriate under the particular facts of a given case, even when no willful infringement is found.

Moreover, even in cases where willfulness is present, the Federal Circuit's overly rigid two-part test for proving such willfulness should be rejected. The Federal Circuit's overly rigid standard for awarding enhanced damages ignores the permissive language of the statute and improperly excludes circumstances where an enhanced fee award may be appropriate. This Court recently recognized – in the context of attorney fees awards under section 285 of the Patent Act – that such rigid tests are not warranted and improperly limit the exercise of the district court's discretion. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755-56. This Court's reasoning in *Octane Fitness* is equally applicable in the context of enhanced damages awards, and a similar approach should be applied. Requiring a similar approach to enhanced damages under § 284 as that applied to fee shifting under § 285 properly balances the interests of patent holders against those of accused infringers to ensure that patent holders are properly compensated. This approach further ensures that improper conduct, such as copying, reverse hold-up or holding out in licensing discussions, bad faith, and/or other dilatory negotiation tactics, is both deterred and remediated when the facts of a given case warrant an award of enhanced damages.

The Federal Circuit also improperly requires a patent owner to establish its entitlement to enhanced damages under § 284 by clear and convincing evidence. This high standard of proof places an unreasonable burden on a patent owner to obtain enhanced damages. It also directly contradicts this Court's reasoning in *Octane Fitness*, which held that such a high standard of proof should not apply to discretionary damages awards. *Id.*

Finally, the Federal Circuit's current practice of reviewing enhanced damages determinations *de novo* is contrary to this Court's decision in *Highmark Inc. v. Allcare Health Management System, Inc.*, in which the Court held that awards of attorney fees under § 285 should be reviewed for abuse of discretion. 134 S. Ct. 1744, 1748-49 (2014). As the district court is in the best position to determine whether an award of enhanced damages is appropriate under the particular facts of each case, deference should be given to the district court's conclusions when reviewing such decisions.

The appropriate standards governing enhanced damages awards are of utmost importance to the patent community. This Court should therefore reevaluate the current judicially-created standard for an award of enhanced damages under § 284 in order to correct each of the four errors present in the Federal Circuit's jurisprudence. The current approach lacks support in the statute, conflicts with the guidance of this Court, and is out of line with important policy considerations.

ARGUMENT

I. AN AWARD OF ENHANCED DAMAGES UNDER § 284 SHOULD NOT REQUIRE A FINDING OF WILLFULNESS

A. The Statutory Language of § 284 Does Not Contain a Willfulness Requirement

Section 284 of the Patent Act states that "the court may increase the damages up to three times the amount found or assessed." 35 U.S.C. § 284. This language places no limits on the factual circumstances under which the district court may exercise its discretion. The statute does not require any subjective inquiry into the mind of the accused infringer, nor does it identify any specific criteria that must be met before the district court may exercise its discretion to award enhanced damages. Despite the broad discretion afforded by § 284, the Federal Circuit has held that increased damages are only available when a defendant is guilty of willful infringement. *See In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007). This added requirement of willfulness is an error that must be corrected.

When grafting a willfulness requirement onto § 284, the Federal Circuit sought guidance from the enhanced damages provision in copyright law. *See id.* at 1370. Although copyright law may provide guidance in certain circumstances, the Federal Circuit's reliance on copyright law in this context was improper. Unlike § 284 of the Patent Act, in the Copyright Act, Congress explicitly set forth a

willfulness requirement for a finding of enhanced damages. 17 U.S.C. § 504(c)(2) ("In a case where the copyright owner sustains the burden of proving, and the court finds, that infringement was committed willfully, the court in its discretion may increase the award of statutory damages...."). The glaring absence of such a requirement in the Patent Act suggests that Congress did *not* intend for there to be such a requirement. *See Seagate*, 497 F.3d at 1381-82 (Gajarsa, J., concurring). Clear statements from Congress should exist before placing limits on recovery for patent infringement. *See Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 653 (1983) ("When Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly."). Conversely, statutes lacking clear statements generally have been interpreted as giving courts broad equitable discretion to award enhanced damages. *See, e.g., TE-TA-MA Truth Foundation-Family of URI, Inc. v. World Church of the Creator*, 392 F.3d 248, 261 (7th Cir. 2004) ("The broad discretion accorded a district court under § 1117(a)...is inconsistent with an interpretation that restricts a prevailing plaintiff to recovery of fees only in cases of willful infringement."). Given the broad language of § 284 and the omission of any willfulness requirement, the decision regarding whether to award enhanced damages should be left to the discretion of the court upon consideration of the totality of the circumstances, and not limited to particular circumstances involving willful infringement.

B. The Federal Circuit's Grafting of a Willfulness Requirement onto § 284 is Contrary to the Legislative History of the Statute and Ignores the Compensatory Aspect of Enhanced Damages

When the Federal Circuit first set forth its current willfulness standard, two Federal Circuit judges advocated for the removal of any such willfulness requirement from § 284. *Seagate*, 497 F.3d at 1376-84 (Gajarsa, J., concurring). As Judges Gajarsa and Newman set forth in their concurring opinion, the judicially manufactured willfulness requirement finds no support in the legislative history, ignores the compensatory function of enhanced damages, and improperly limits judicial discretion.

In Zimmer, Inc.'s response to the petition for *certiorari* in the consolidated case *Stryker, Inc. v. Zimmer, Inc.*, it states that enhanced damages were first introduced by the Patent Act of 1836. (Zimmer, Inc.'s Brief in Opposition ("Zimmer's Response") at 16). This is not correct. The Patent Act of 1793 not only included an enhanced damages provision, but it also mandated that such damages be awarded in each case of infringement. Patent Act of 1793, ch. 11, § 5, 1 Stat. 318, 322 (repealed 1836). The Patent Act of 1836 removed this mandatory requirement and instead granted courts the discretion to award enhanced damages "according to the circumstances of the case." Patent Act of 1836, ch. 357, § 14, 5 Stat. 117, 123. Zimmer asserts that the enhanced

damages provision set forth in the 1836 Patent Act "required a showing of willful and wanton infringement." (Zimmer Response at 16). To the contrary, as explained by Judge Gajarsa in his *Seagate* concurrence, "[n]othing in the phrase 'according to the circumstances of the case' [in the 1836 Act] implies that the district court's discretion to award enhanced damages is contingent upon a finding of willfulness." *Seagate*, 497 F.3d at 1377 (Gajarsa, J., concurring). Moreover, a patent law textbook written while the 1836 Patent Act was in effect stated that "[i]ncreased damages may properly be awarded by a court, where it is necessary to award them in order to prevent a defendant infringer from profiting from his own wrong, whether that wrong was intentional or was unwitting." ALBERT H. WALKER, TEXT-BOOK OF THE PATENT LAWS OF THE UNITED STATES OF AMERICA 423 (2d ed. 1889). The purpose of the 1836 statute was to provide discretion to the courts to enhance patent damages, even in cases where no willful infringement occurred. The enhanced damages provision of the Patent Act has not substantively changed since the 1836 Act and has never included any willfulness requirement.

Requiring willfulness for an award of enhanced damages under § 284 also ignores the compensatory aspect of enhanced damages awards. As originally drafted, discretionary enhanced damages were designed, at least in part, to ensure that the patent owner was properly and adequately compensated for infringement. *See* Sen. John Ruggles, S. Report Accompanying Senate Bill No.

239, at 6 (Apr. 28, 1836) (recognizing that one problem to be addressed by the 1836 Patent Act was the fact that pre-1836 patent law "offer[ed] an inadequate remedy for the [infringement] injury"). And the Federal Circuit has recognized that enhanced damages may be necessary in appropriate cases to properly compensate a patent owner. *See, e.g., King Instruments Corp. v. Perego*, 65 F.3d 941, 951 n. 6 (Fed. Cir. 1995) ("Such discretionary increases may be appropriate where plaintiffs cannot prove direct and foreseeable damages in the form of lost profits."); *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1126 (Fed. Cir. 1987) ("Whether or not willfulness is found, the court has authority to consider the degree of culpability of the tortfeasor. The measure of damages...provides an opportunity for the trial court to balance equitable concerns as it determines whether and how to recompense the successful litigant."); *Stickle v. Heublein*, 716 F.2d 1550, 1563 (Fed. Cir. 1983) ("[T]he trial court may award an amount of damages greater than a reasonable royalty so that the award is adequate to compensate for the infringement."); *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1342 (Fed. Cir. 2014) (Prost, J., concurring) ("[W]e have previously acknowledged that a trial court may award an amount of damages *greater than* a reasonable royalty if necessary to compensate for the infringement.") (internal citation omitted) (emphasis in original).

As emphasized by Judge Gajarsa's *Seagate* concurrence, "actual damages provable at law—though not 'inadequate' in the equitable sense—could

nevertheless be less than sufficient to compensate the patentee. In such a case, a discretionary enhancement of damages would be appropriate for entirely remedial reasons, irrespective of the defendant's state of mind." *Seagate*, 497 F.3d at 1378 (Gajarsa, J., concurring). Flexibility in awarding enhanced damages is necessary because the facts of each case vary, and courts should have discretion to award enhanced damages when appropriate under the particular facts of the case. Judge Garjarsa explained that situations in which an award of enhanced damages may be necessary to adequately compensate a patent owner, irrespective of a willfulness finding, could include, for example, those where a defendant's sales data is lost prior to discovery or where a court determines that enhanced damages are more appropriate than injunctive relief. *Id.*

Another example where an award of enhanced damages may be appropriate without a finding of willfulness is in cases involving standard-essential patents. When a patent is declared essential to an industry standard, the patent owner is often obligated to license the patent on fair, reasonable, and non-discriminatory ("FRAND") terms. When a patent owner has expressed a willingness to license its patent on FRAND terms, an infringing implementer may believe that the patent owner has limited its available remedies for unauthorized use and, as a result, may engage in reverse hold-up or dilatory hold-out tactics in order to reduce any payments, delay making them, or

outright avoid paying for a license. Infringing implementers may be incentivized to engage in dilatory tactics because they believe that any royalties awarded in a patent case would be effectively capped at FRAND rates. The FRAND commitment, therefore, may work to provide an incentive for the infringing implementer to continue infringement without payment of compensation for as long as possible in order to gain all of the benefits of postponed cash outlays or other value transfers. District courts should have the discretion to award enhanced damages under § 284 in these kinds of situations in order to fully compensate patent owners and deter such harmful reverse hold-up and hold-out tactics. *See, e.g. Apple*, 757 F.3d at 1342 (Prost, J., concurring) ("[I]f a trial court believes that an infringer previously engaged in bad faith negotiations, it is entitled to increase the damages to account for any harm to the patentee as a result of that behavior.").

In their responses to the petitions for *certiorari* in the consolidated cases, Zimmer and Pulse Electronics place a lot of emphasis on the historical practice of awarding enhanced damages upon a finding of willfulness. (Zimmer Response at 16-18; Pulse Electronics' Brief in Opposition to Petition for a Writ of *Certiorari* ("Pulse Response") at 19). However, this historical practice does not justify a general rule requiring willfulness as a prerequisite for such awards. *Cf. eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395 (2006) (observing that the historical practice of granting injunctions in the vast

majority of patent cases "does not *entitle* a patentee to a permanent injunction or justify a *general rule* that such injunctions should issue"). Because willful infringement was the most common reason for a court to award enhanced damages, the case law quickly began to focus on that issue to the exclusion of other circumstances that may have warranted exercise of the district court's discretion.

The Federal Circuit's grafting of a willfulness requirement onto § 284 is contrary to the statute's legislative history, ignores the compensatory aspect of enhanced damages, and improperly eliminates the discretion granted to the district court. This Court should therefore remove the willfulness requirement from the standard for awarding enhanced damages and institute a more discretionary approach.

II. THE FEDERAL CIRCUIT'S OVERLY RIGID TEST IS INAPPROPRIATE EVEN WHEN WILLFULNESS IS AT ISSUE

Although willfulness should not be a necessary predicate to an award of enhanced damages, evidence of willful infringement could certainly be sufficient to support such an award. But even when willfulness is at issue, the Federal Circuit's overly rigid two-part test for determining whether willful infringement has occurred should be rejected. Under the first prong of the current test, a patent owner "must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* at 1371. If this threshold objective

standard is satisfied, the patent owner must then prove that the objectively-defined risk "was either known or so obvious that it should have been known to the accused infringer." *Id.* This test improperly shifts the focus of the inquiry to an infringer's post-suit activities and fails to account for pre-suit conduct that may warrant an award of enhanced damages in appropriate situations. Section 284 is not so limited. This Court should remove this test and replace it with a standard that allows the district court to consider the totality of the circumstances, including an infringer's pre-suit activities.

A. This Court's Rejection of the Federal Circuit's Unduly Rigid Test for Fee-Shifting Under § 285 Favors Rejection of the Federal Circuit's Equally Rigid Test Under § 284

This Court recently rejected the Federal Circuit's overly rigid test for awarding attorney fees under § 285 of the Patent Act. As discussed below, the reasoning applied by the Court under § 285 applies with equal force to § 284.

Section 285 states that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. The Federal Circuit previously required a showing that a case either involved "material inappropriate conduct" or was both "objectively baseless" and "brought in subjective bad faith" in order to award attorney fees. *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*,

393 F.3d 1378, 1382 (Fed. Cir. 2005). This Court struck down that test as "unduly rigid," finding that the test "impermissibly encumber[ed] the statutory grant of discretion to district courts." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014). The Court also noted that the Federal Circuit's requirement that "a district court must determine *both* that the litigation is objectively baseless *and* that the plaintiff brought it in subjective bad faith" was too restrictive. *Id.* at 1757. The Court held instead that either objectively baseless litigation or a plaintiff's subjective bad faith may independently warrant a fee award. *Id.* The Court held that the proper test for determining whether fee-shifting is appropriate is the consideration of the totality of the circumstances on a case-by-case basis. *Id.* at 1756. Thus, even though § 285 is limited to "exceptional cases," the Court left the determination of whether fee-shifting is appropriate to the discretion of the district court by allowing the district court to consider the totality of the circumstances.

Zimmer and Pulse Electronics argue that *Octane Fitness* should not influence this Court's decision regarding the enhanced damages standard because there is no mention in *Octane Fitness* of § 284. (Zimmer Response at 19; Pulse Response at 15). For multiple reasons, this Court's reasoning in *Octane Fitness* applies with equal, or even greater, force to awards of increased damages under § 284. First, the Federal Circuit's current test for enhanced damages, like its old test for fee-shifting, was

predicated on this Court's decision in *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993) (*PRE*). *See Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 769 F.3d 1371, 1384 (Fed. Cir. 2014) (O'Malley, J., concurring). In *PRE*, this Court established a two-part objective/subjective test to determine whether litigation is "sham" litigation, so as to nullify the immunity from antitrust liability generally enjoyed by litigants. 508 U.S. at 60-61. Prior to this Court's decision in *Octane Fitness*, the Federal Circuit had imported the standard set forth in *PRE* into § 285 as well. *See Octane Fitness*, 134 S. Ct. at 1756. In *Octane Fitness*, this Court held that the Federal Circuit's interpretation of *PRE* was wrong, noting that "the *PRE* standard finds no roots in the text of § 285." *Id.* at 1756-57. This Court should similarly reject the Federal Circuit's reliance on *PRE* to construct an overly rigid test for awarding enhanced damages under § 284. "Just as 'the *PRE* standard finds no roots in the text of § 285,' there is nothing in the text of § 284 that justifies the use of the *PRE* narrow standard." *Halo Elecs.*, 769 F.3d at 1384 (O'Malley, J., concurring) (quoting *Octane Fitness*, 134 S. Ct. at 1757).

Second, Section 284 provides even greater discretion to the district court than does Section 285: a district court "may increase the damages up to three times the amount found or assessed." 35 U.S.C. § 284. There is no requirement that enhanced damages be awarded only in "exceptional cases," as there is for an award of attorney fees under § 285.

See id. Like the test for § 285 rejected by this Court, the current Federal Circuit test for § 284 "superimposes an inflexible framework onto statutory text that is inherently flexible." *Octane Fitness*, 134 S. Ct. at 1756.

Third, the objective/subjective test used by the Federal Circuit to determine whether to award enhanced damages is nearly identical to the § 285 test rejected by this Court in *Octane Fitness*, despite that section having a more restrictive "exceptional case" requirement. *See iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011) ("The objective baselessness standard for enhanced damages and attorney fees...under *Brooks Furniture* is identical to the objective recklessness standard for enhanced damages and attorney fees against an accused infringer for § 284 willful infringement actions."). This Court should overturn the § 284 test for the same reasons it rejected the § 285 test because, "[i]f 'objective recklessness' is a harsh standard for attorney fees, then it is a necessary conclusion that it is too harsh a standard for enhanced damages." James Ryan, *A Short History of Patent Remedies*, 6 CYBARIS AN INTELL. PROP. L. REV. 150, 182-83 (2015).

Finally, courts have historically treated the award of enhanced damages under § 284 and the award of attorney fees under § 285 similarly, often citing precedent concerning one section in the application of the other. *See, e.g., iLOR*, 631 F.3d at 1377; *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1007 (Fed. Cir. 2012). It therefore follows logically that this Court should

apply its reasoning in *Octane Fitness* to the standard for awarding enhanced damages under § 284.

In arguing that *Octane Fitness* should not apply to the § 284 standard, Zimmer and Pulse Electronics assert that § 285 is compensatory, while § 284 is punitive. (Zimmer Response at 19; Pulse Response at 14). As discussed above, however, although one purpose of § 284 may be to punish infringers in appropriate cases, awarding enhanced damages has historically also had a compensatory purpose in certain cases. *See supra* Sec. I.B. It is clear that, contrary to Zimmer and Pulse Electronics' assertions, §§ 284 and 285, and the tests used by the Federal Circuit to apply them, are very similar and should be given the same treatment by this Court.

Despite the similarities between § 284 and § 285 and the tests constructed by the Federal Circuit to apply those statutes, the Federal Circuit has to date persisted in applying an overly rigid standard to § 284, even after this Court rejected the basis for that standard in *Octane Fitness*. This Court should reconcile these tests and preserve flexibility and discretion in awarding damages under § 284 as the Court has done for § 285.

B. The Federal Circuit's Willfulness Test Encourages Free-Riding by Infringers and Discourages Innovation

When applying the Federal Circuit's current strict two-part willfulness test, courts have mainly focused on the merits of a defendant's post-litigation

defenses, rather than on a defendant's pre-suit actions. *See, e.g., Halo Elecs.*, 769 F.3d at 1382-83. District courts have increasingly held that a close call on infringement or the existence of a substantial invalidity defense precludes a finding of willfulness. *See, e.g., Resqnet.com, Inc. v. Lansa, Inc.*, 533 F. Supp. 2d 397, 420 (S.D.N.Y. 2008); *TGIP, Inc. v. AT&T Corp.*, 527 F. Supp. 2d 561, 579 (E.D. Tex. 2007).

Under the Federal Circuit's willfulness standard, no matter how unreasonable, reckless, or intentional an infringer's actions are pre-suit, willful infringers can attempt to avoid the consequences of their actions by simply putting forth a non-frivolous post-suit defense. This does not make sense from a policy perspective. Courts should focus on the totality of the circumstances, including pre-suit factors, such as the facts known to the accused infringer at the time the accused infringer learned of the patent and proceeded with actions relevant to infringement. For example, if a party during negotiations is put on notice that it is infringing a number of patents necessary to practice a particular standard and that party then engages in a pattern of hold-out and other delay tactics designed to permit continued infringement and free-riding, such conduct should properly be considered in a willfulness determination. Only by looking at all of the relevant evidence can the trier of fact decide whether the accused infringer committed willful infringement. As the Federal Circuit previously recognized, the mere fact that an infringer is able to come up with some

plausible defenses at trial should not negate the infringer's earlier unreasonable, bad faith, or reckless actions. *See Datascape Corp. v. SMEC, Inc.*, 879 F.2d 820, 829 n. 8 (Fed. Cir. 1989) ("[Defendants] will not be permitted to be saved from their flagrant disregard for the patent laws by the fortuity that when the patent in issue was closely scrutinized in this lawsuit, a close question of obviousness was presented.") (internal citation omitted).

Awarding enhanced damages for willful infringement punishes culpable behavior and deters potential infringers from engaging in such behavior. *See Rite-Hite*, 819 F.2d at 1126 ("The role of a finding of 'willfulness' in the law of infringement is partly as...an economic deterrent to the tort of infringement – and partly as a basis for making economically whole one who has been wronged."). The Federal Circuit's current rigid willfulness standard fails to accomplish these important objectives. Under the current standard, even an infringer who intentionally chose to infringe a patent, believing fully that the act was infringement, and that was later judged to be infringing, could still successfully avoid enhanced damages by concocting, post-suit, a non-frivolous (but ultimately incorrect) defense. This result encourages infringers to disregard known patent rights of innovators because there is little chance that doing so will result in greater penalty. With a lower threat of being punished, efficient infringement becomes a rational business model, and companies may choose to take the lower risk of willfully infringing a patent to obtain the benefit of

free-riding on others' innovation. The willfulness inquiry as a factor in an enhanced damages analysis serves to deter unreasonable behavior, such as knowing infringement and holding out, and the determination of whether enhanced damages are appropriate should enable that goal to be fulfilled. The Federal Circuit's overly rigid test does not do so.

The current willfulness standard is equally problematic with regard to standard-essential patents, such as patents essential to cellular telecommunications standards. After a patent is declared essential to an industry standard, if a company decides to implement the standard and is on notice of another's essential patent, that implementer should take steps to either timely obtain a license and pay appropriate royalties or take all necessary steps to reasonably determine that a license is not needed. However, as discussed above, the implementer has little incentive to timely enter into a license and begin making appropriate payments if it believes that it will at most have to pay FRAND terms for such a license at the end of the day, even if it engages in unreasonable conduct in negotiations, such as reverse hold-up or hold-out tactics to avoid paying appropriate compensation. If the implementer chooses to ignore the patent rights of others and refuses to timely enter into a license, it is free-riding on the intellectual property rights of others. The availability of enhanced damages may provide a needed deterrent against such reverse hold-up and hold-out tactics, and resulting free-riding, because the infringing implementer could face

much higher damages awards in appropriate cases where its conduct so warrants. *See Apple*, 757 F.3d at 1342 (Prost, J., concurring). The Federal Circuit's rigid test, however, removes much of the teeth from this deterrent, and, as a result, users of essential patented technology are incentivized to continue holding out and free-riding as long as possible because, under the current regime, the risk of enhanced damages is mitigated by the possibility that post-suit rationalizations will avoid enhanced damages. Without a meaningful deterrent, there is little risk in this approach and much to gain from continued use of technology without paying for it. *See* Justin P. Huddleson, *Objectively Reckless: A Semi-Empirical Evaluation of In re Seagate*, 15 B.U.J. SCI. & TECH. L. 102, 134 (2009) ("[I]t is likely that companies will be more willing to infringe a patent, preferring to take their chances that the court will strike down the patent or that the benefits of marketing the pirated invention during the duration of the lawsuit will be worth more than damages. With a lower threat of being punished, combined with inaccurate royalty or lost profit determinations, efficient infringement becomes a rational business model.") (internal quotations omitted).

The Federal Circuit's overly rigid test also discourages patent owners from investing in new innovations. If patent owners are unlikely to get enhanced damages in appropriate cases, including those involving willful infringement, some patent owners may choose not to pursue every violation.

Additionally, the increased costs of proving willfulness, combined with the potential for insufficient compensation, greatly decreases incentives for patenting, thus discouraging continued investment in innovation.

The incentive for an inventor to patent and disclose an invention is only as strong as the property rights of a patent. "The strength of this property right is crucial to foster innovation that would not occur except for the prospect of a patent because companies can expect increased profits from investments in research and development." Huddleson, *supra*. The ability to deter unreasonable behaviors, including willful infringement, is part of a patent's value. The current willfulness standard set forth in *Seagate* weakens the property rights of a patent by effectively permitting, perhaps even encouraging, willful infringement. This Court should thus set forth a more flexible, discretionary willfulness standard that is consistent with the discretion afforded by § 284.

III. THE FEDERAL CIRCUIT IMPROPERLY REQUIRES PATENT OWNERS TO ESTABLISH THEIR ENTITLEMENT TO ENHANCED DAMAGES BY CLEAR AND CONVINCING EVIDENCE

A. The High Standard of Proof Creates an Unreasonable Burden for a Patent Owner to Obtain Enhanced Damages

The Federal Circuit's overly rigid test also applies an inappropriate burden of proof by requiring that willfulness be established by clear and convincing evidence. *See Seagate*, 497 F.3d at 1371. The statute contains no such requirement, and the heightened standard imposed by the Federal Circuit undermines the purpose behind it.

When discussing Congress's silence regarding a standard of proof in a statute, this Court has noted that "[t]his silence is inconsistent with the view that Congress intended to require a special, heightened standard of proof." *Grogan v. Garner*, 498 U.S. 279, 286 (1991). Here, Congress's silence in the legislative history and text of § 284 suggests that a court's discretion to increase a damage award should not be constrained by a requirement of proof higher than a preponderance of the evidence.

As this Court has recognized, a "preponderance-of-the-evidence standard allows both parties to share the risk of error in roughly equal fashion," whereas "[a]ny other standard expresses a preference for one side's interests." *Herman &*

MacLean v. Huddleston, 459 U.S. 375, 390 (1983) (internal quotations omitted). The issue of whether to award enhanced damages only arises if the fact-finder has already determined that the defendant has actually infringed a valid and enforceable patent. *See Seagate*, 497 F.3d at 1368. In such cases, the patent owner and the infringer should equally share the risk of an incorrect factual resolution in an enhanced damages determination. Factual issues in an enhanced damages determination should therefore be resolved under a preponderance of the evidence standard.

Finally, it is worth noting that this Court has held that a preponderance of the evidence standard sufficed for recovery under the antitrust laws. *See Herman & McLean*, 459 U.S. at 390. This is significant because a successful antitrust plaintiff automatically recovers treble damages. 15 U.S.C. § 15(a). This demonstrates that heightened burdens of proof are not required for treble damages awards, and there is no reason to impose such a heightened standard on § 284. This Court should clarify the appropriate burden of proof for enhanced damages.

B. This Court's *Octane Fitness* Decision Confirms that a Heightened Standard of Proof Is Not Required to Award Enhanced Damages

In *Octane Fitness*, this Court rejected the Federal Circuit's requirement that patent owners establish their entitlement to fees under § 285 by clear and convincing evidence, noting that "patent-

infringement litigation has always been governed by a preponderance of the evidence standard." *Octane Fitness*, 134 S. Ct. at 1758. The Court noted that "nothing in § 285 demands such a high standard of proof." *Id.* Instead, "Section 285 demands a simple discretionary inquiry." *Id.* Like § 285, § 284 contains no language that justifies a higher standard of proof. Section 284 allows enhanced damages at the discretion of the district court, and the award of such damages should also be subject to the lesser preponderance of the evidence standard governing infringement damages.

Zimmer and Pulse Electronics' argument that *Octane Fitness* should not be applied to § 284 based on the punitive nature of enhanced damages is again without merit in the context of the standard of proof used in enhanced damages analyses. The Supreme Court has expressly rejected the notion that punitive damages require a higher burden of proof, stating that "[t]here has never been any general common-law rule that the threshold for punitive damages must always be higher than that for compensatory liability." *Smith v. Wade*, 461 U.S. 30, 53 (1983). This Court should remove the heightened burden the Federal Circuit has imposed on patent owners to establish enhanced damages under § 284.

IV. ENHANCED DAMAGES DETERMINATIONS SHOULD BE REVIEWED WITH DEFERENCE TO THE FACTFINDER

The Federal Circuit currently engages in *de novo* review of district courts' enhanced damages determinations. *See Bard*, 682 F.3d at 1007. This standard of review is contrary to this Court's precedent and should be corrected.

In *Highmark Inc. v. Allcare Health Management System, Inc.*, this Court held that, because the determination of whether to award attorney fees under § 285 is left to the discretion of the district court, those determinations should be reviewed using an abuse-of-discretion standard. 134 S. Ct. 1744, 1748-49 (2014). The Court emphasized that "the district court is better positioned to decide whether a case is exceptional." *Id.* at 1748 (internal quotations omitted).

As discussed above, § 284 leaves the determination of whether to award enhanced damages to the discretion of district courts. *See supra*, Sec. I. This Court's reasoning in *Highmark* squarely applies to an award of enhanced damages under § 284. As with awards of attorney fees, the district court is better positioned to determine when an award of enhanced damages is appropriate "because it lives with the case over a prolonged period of time." *Highmark*, 134 S. Ct. at 1748. Accordingly, for the same reasons it applied an abuse-of-discretion standard of review to awards of

attorney fees under § 285, this Court should apply the same standard to awards of enhanced damages under § 284.

Zimmer argues that the reasoning set forth in *Highmark* should not alter the standard of review for enhanced damages determinations because *Highmark*'s holding was predicated on the revised standard for awarding attorney fees set forth in *Octane Fitness*. (Zimmer Response at 20-21). As thoroughly argued in this brief, however, the standard for awarding enhanced damages should also be revised by this Court to be more flexible, in line with the revised test for attorney fees set forth in *Octane Fitness*. Once this standard is properly revised, the reasoning set forth in *Highmark* will apply with even greater force to the standard of review for enhanced damages determinations. This Court should therefore require the Federal Circuit to review such determinations using an abuse-of-discretion standard.

CONCLUSION

For the reasons set forth above, the Court should remove the willfulness requirement from the standard for awarding enhanced damages and require a more discretionary approach consistent with the statute. The Court should further hold that the standard of proof for awards of enhanced damages should be a preponderance-of-the-evidence and that such awards should be reviewed only for abuse of discretion.

Respectfully submitted,

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